

172.1

DEPARTMENT OF HEALTH

PREPAID HEALTH PLANS

APRIL 1974

# Joint Legislative Audit Committee

## ASSEMBLYMEN

CHAIRMAN  
VINCENT THOMAS  
SIXTY-EIGHTH DISTRICT  
WILLIE L. BROWN, JR.  
EIGHTEENTH DISTRICT  
MIKE CULLEN  
FORTY-FOURTH DISTRICT

GOVERNMENT CODE: SECTIONS 10500-10505

# California Legislature

## SENATORS

RANDOLPH COLLIER  
FIRST DISTRICT  
GEORGE DEUKMEJIAN  
THIRTY-SEVENTH DISTRICT  
GEORGE N. ZENOVICH  
SIXTEENTH DISTRICT

VINCENT THOMAS  
CHAIRMAN

ROOM 4126, STATE CAPITOL  
SACRAMENTO, CALIFORNIA 95814  
(916) 445-7906

MERRILL E. TOMPKINS, C.P.A., COORDINATOR  
(916) 445-1890

EVE OSTOJA, OFFICE MANAGER  
(916) 445-7908

April 22, 1974

The Honorable President of the Senate  
The Honorable Speaker of the Assembly  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members:

Transmitted herewith is the Auditor General's report pertaining to 15 prepaid health plans (PHPs) administered by the Department of Health.

Total payments by the Department of Health from January 1, 1971 through December 31, 1973 to the 15 PHP contractors, 14 of whom provide services in Los Angeles County, amounted to \$56.5 million. Of this amount, only an estimated \$27.1 million or 48 percent was expended for health care services for Medi-Cal recipients. The balance of \$29.4 million or 52 percent was expended by the PHP contractors and their affiliated subcontractors for administrative costs or resulted in net profits to these companies.

As one example of such administrative costs, a salary of \$120,000 plus expenses was paid by a PHP contractor to a physician to serve as a plan administrator.

The Auditor General has concluded that the Department of Health, in paying out \$56.5 million to 15 PHP contractors and, in return, receiving only 48 percent of that amount, or \$27.1 million in actual health care services, has administered the PHP program in an ineffective manner.

The Auditor General has recommended legislation be enacted to provide that a minimum of 75 percent of all payments made by the Department of Health to PHP contractors be expended for actual health care services as existing legislation effectively requires for similar nonprofit hospital service plans.

The Honorable Members of the Legislature  
of California  
April 22, 1974  
Page 2

The Department of Health has not properly discharged its statutory authority and responsibility of instituting and requiring uniform accounting procedures, complete financial reporting and routine auditing of PHP contractors and their affiliated subcontractors. Therefore, the Auditor General has recommended that legislation be enacted to transfer such authority and responsibility from the Department of Health to the Department of Finance.

Officers and directors of eight of the nonprofit PHP contractors have formed firms of affiliated profit-making subcontractors who provide various services, including administration and health care, for the PHP contractors. The complex relationship of the contractors with the subcontractors makes it more difficult to determine how much of the Department of Health payments is actually expended for health care services.

Pertinent data regarding the organizational structure of each of the 15 selected PHP contractors and their affiliated subcontractors is shown in an Appendix in the report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Vincent Thomas", with a long, sweeping horizontal stroke at the end.

VINCENT THOMAS, Chairman  
Joint Legislative Audit Committee

TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| SUMMARY OF FINDINGS, RECOMMENDATIONS AND BENEFITS   | 1           |
| INTRODUCTION  | 2           |
| FINDINGS  |             |
| Of the \$56.5 million payments made by the Department of Health to 15 Prepaid Health Plan (PHP) contractors, only an estimated \$27.1 million, or 48 percent, was expended for health care services for Medi-Cal recipients. The balance of \$29.4 million of the Department of Health payments, or 52 percent of such payments, was expended by the PHP contractors and their affiliated subcontractors for administrative costs or resulted in net profits. | 5           |
| The Department of Health has not properly discharged its statutory authority and responsibility to institute and require uniform accounting procedures, complete financial reporting and routine auditing of PHP contractors and their affiliated subcontractors.   | 11          |
| OTHER PERTINENT INFORMATION   | 13          |
| SUMMARY OF COMMENTS OF DIRECTOR OF DEPARTMENT OF HEALTH AND HIS STAFF   | 16          |
| APPENDIX  |             |
| PHP Contractors   |             |
| Consolidated Medical Systems, Ltd. (CMS)  | 17          |
| Family Health Program, Inc. (FHP)   | 21          |
| Central Los Angeles Health Project (CLAHP)  | 24          |
| Marvin Health Services, Inc. (MHS)  | 27          |
| Harbor Health Services (HHS)  | 32          |
| Century City Doctors Foundation (CCDF)  | 35          |
| Omni-Rx Health Care, Inc. (OMNI-RX)   | 36          |
| Los Angeles Health Foundation (LAHF)  | 38          |
| Century Health Plan, Inc. (CHP)   | 40          |
| Westland Health Services, Inc. (WHS)  | 42          |
| South Los Angeles Community Health Plan (SLACHP)  | 44          |
| Americare   | 46          |
| Watts Multipurpose Health Service Corporation (WATTS)   | 48          |
| South Bay Family Medical Group, Inc. (SOUTH BAY)  | 50          |
| Western Medical Group (WMG)   | 51          |

SUMMARY OF FINDINGS,  
RECOMMENDATIONS AND BENEFITS

Page

FINDINGS

Of the \$56.5 million payments made by the Department of Health to 15 Prepaid Health Plan (PHP) contractors, only an estimated \$27.1 million, or 48 percent, was expended for health care services for Medi-Cal recipients. The balance of \$29.4 million of the Department of Health payments, or 52 percent of such payments, was expended by the PHP contractors and their affiliated subcontractors for administrative costs or resulted in net profits.

5

The Department of Health has not properly discharged its statutory authority and responsibility to institute and require uniform accounting procedures, complete financial reporting and routine auditing of PHP contractors and their affiliated subcontractors.

11

RECOMMENDATIONS

We recommend that legislation be enacted which will provide that a minimum of 75 percent of all payments made by the Department of Health to PHP contractors be expended for actual health care services.

9

We recommend that legislation be enacted which will transfer the authority and responsibility for establishing uniform accounting procedures, complete financial reporting and the routine auditing of PHP contractors and their affiliated subcontractors from the Department of Health to the Department of Finance.

12

BENEFITS

If health care services provided by the 15 selected PHP contractors are adequate, the implementation of the first recommendation will result in at least \$12,500,000 annually of reduced Medi-Cal expenditures. If the health care services provided by the 15 PHP contractors are inadequate, the implementation of this recommendation will make at least \$12,500,000 of additional monies available annually for the improvement of health care services.

10

INTRODUCTION

In response to a legislative request, we have reviewed the organizational entities involved in providing health care services to Medi-Cal recipients under contracts between the California Department of Health and 15 selected prepaid health plan (PHP) contractors. This review did not include an evaluation of the health care services provided.

Under the administration of the Department of Health, Medi-Cal recipients are provided with health care services in two ways. One way is known as "fee-for-service". Under the fee-for-service method, the provider of health care services (the physician, pharmacist, or dentist) is reimbursed by the Department of Health for actual services furnished to the Medi-Cal recipients. The fee-for-service method currently accounts for approximately 90 percent of the total medical services provided to the Medi-Cal recipients.

A second method which provides an alternative to the fee-for-service approach is the PHPs. Under the PHPs, the provider of health care services is the PHP contractor under contract with the Department of Health or a subcontractor of the PHP contractor either of whom employ physicians and other health professionals. The PHP contractors reviewed generally were nonprofit corporations. The PHP contractor is paid in advance by the Department of Health on the basis of a fixed monthly fee regardless of the extent of the health care services furnished to the Medi-Cal recipients. By law the fixed monthly fee cannot exceed the amount which the department estimates would be payable for the same services on a fee-for-service basis.

While PHPs currently account for approximately 10 percent of the total medical services provided to Medi-Cal recipients, this percentage is rapidly increasing.

Medi-Cal recipients are eligible for free health care services under PHPs financed by the federal and state governments on a 50-50 basis. Eligibility of these recipients extends to those persons eligible under the state's welfare programs including Aid to Families with Dependent Children, Aid to the Disabled, Aid to the Blind, and Old Age Security.

PHPs for Medi-Cal recipients were first authorized by the Legislature in 1966 (Ch. 4, Stat. of 1965, 2nd Ex. Sess.) and are now provided for under Chapter 8, commencing with Section 14200, Part 3, Division 9 of the Welfare and Institutions Code. A PHP is defined in Section 14251 as:

"...any carrier or association of providers of medical and health services who agree with the department...to furnish directly or indirectly health services to Medi-Cal beneficiaries on a pre-determined periodic rate basis..."

As of December 31, 1973, the 15 selected PHP contractors had contracts with the Department of Health to enroll a maximum of 356,000 Medi-Cal recipients. This represented 44 percent of the total possible maximum enrollment of 814,565 Medi-Cal recipients under all PHPs throughout the state.

As of December 31, 1973, the actual enrollment in the 15 selected PHPs was 122,000, or approximately 60 percent of the 204,397 Medi-Cal recipients enrolled in all of the PHPs statewide.

Total payments by the Department of Health to PHP contractors from the inception of the PHP program on January 1, 1971 through December 31, 1973 were \$78.7 million. The 15 PHP contractors reviewed received payments amounting to \$56.5 million or approximately 72 percent of the total payments.

Fourteen of the fifteen PHPs reviewed provided health care services in Los Angeles County. Some of the plans reviewed also provided services in the counties of Orange, San Bernardino and San Diego. The Western Medical Group Plan provides services in only San Diego County. Two of the PHPs reviewed, Century City Doctors Foundation and South Bay Medical Group, Incorporated, entered into PHP contracts with the Department of Health but have never enrolled Medi-Cal recipients. The contract with Century City Doctors Foundation has expired.

As requested by the Legislature, pertinent data regarding the organizational structure of each of the selected 15 PHP contractors and their affiliated subcontractors is shown in the Appendix.



FINDINGS

OF THE \$56.5 MILLION PAYMENTS MADE BY THE DEPARTMENT OF HEALTH TO 15 PHP CONTRACTORS, ONLY AN ESTIMATED \$27.1 MILLION OR 48 PERCENT, WAS EXPENDED FOR HEALTH CARE SERVICES FOR MEDI-CAL RECIPIENTS. THE BALANCE OF \$29.4 MILLION OF THE DEPARTMENT OF HEALTH PAYMENTS, OR 52 PERCENT OF SUCH PAYMENTS, WAS EXPENDED BY THE PHP CONTRACTORS AND THEIR AFFILIATED SUBCONTRACTORS FOR ADMINISTRATIVE COSTS OR RESULTED IN NET PROFITS.

Between the inception of the PHP program on January 1, 1971 through December 31, 1973, the Department of Health paid a total of \$56,567,000 to the 15 selected PHP contractors.

An analysis of these payments disclosed that only an estimated \$27,105,000 or 48 percent of such payments was expended by these PHP contractors for health care services for Medi-Cal recipients. The balance of \$29,462,000 or 52 percent of such payments was expended by either the PHP contractor and their affiliated subcontractors for administrative costs or resulted in net profits to these PHP contractors or subcontractors.

Affiliated subcontractors include those firms owned or controlled by the officers or directors of the PHP contractors.

Administrative expenses include costs of data processing, enrollment of recipients into the prepaid health plans, rent and overhead of administrative offices and salaries and expenses of administrative personnel of the PHPs and their affiliated subcontractors. Net profits represent the excess of

revenues over expenditures realized by the PHP contractors and their affiliated subcontractors.

Estimated administrative costs and net profits were determined on the basis of available financial statements, interviews with PHP administrators, and summary schedules furnished by some of the PHPs.

Administrative costs and net profit data for certain affiliated subcontractors were not readily available and were therefore excluded from cost and profit estimates in this report. Also the salaries of some physicians who are involved in administration of PHPs and who care for few, if any, patients were not readily identified in the financial statements, and so have been excluded from the administrative costs. Therefore, our estimated administrative cost and profit amounts are low.

The following schedule shows that only 48 percent of the \$56.5 million paid by the Department of Health to the 15 selected PHP contractors between January 1, 1971 through December 31, 1973 was expended for health care services for Medi-Cal recipients. The four largest and oldest PHP contractors reviewed received approximately \$48 million of the \$56.5 million. Only about 44 percent of the total amount received by these four contractors was expended for health care services. In contrast, two firms, Los Angeles Health Foundation and South Los Angeles Community Health Plan, were awarded their first contracts from the Department of Health during 1973 and of the approximately \$1.8 million which the Department of Health paid them, approximately 66 percent was expended for health care services.

Office of the Auditor General

| <u>Prepaid Health<br/>Plan Contractors</u> | <u>Total Payments<br/>By Department<br/>Of Health</u> | <u>Estimated Amounts<br/>Expended for Admin-<br/>istrative Costs<br/>Or Resulting<br/>In Net Profits</u> | <u>Estimated<br/>Amounts<br/>Expended<br/>For Health<br/>Care Services</u> |
|--|---|--|--|
| Consolidated Medical Systems,<br>Ltd.      | \$27,983,000  | \$14,990,000   | \$12,993,000   |
| Family Health Program, Inc.                | 8,959,000   | 5,465,000  | 3,494,000  |
| Central Los Angeles Health<br>Project      | 4,101,000   | 2,338,000  | 1,763,000  |
| Marvin Health Services, Inc.               | 6,974,000   | 4,254,000  | 2,720,000  |
| Harbor Health Services                     | 2,617,000   | 864,000  | 1,753,000  |
| Omni-Rx Health Care, Inc.                  | 897,000   | 305,000 <sup>(2)</sup>   | 592,000  |
| Los Angeles Health Foundation              | 826,000   | 272,000  | 554,000  |
| Century Health Plan, Inc.                  | 987,000   | 257,000  | 730,000  |
| Westland Health Services, Inc.             | 860,000   | 301,000 <sup>(2)</sup>   | 559,000  |
| South Los Angeles Community<br>Health Plan | 1,021,000   | 357,000  | 664,000  |
| Watts Multipurpose Health<br>Services Plan | 405,000   | (61,000) <sup>(2)</sup>  | 466,000  |
| Americare                                  | 720,000   | 43,000 <sup>(2)</sup>  | 677,000  |
| Western Medical Group                      | 216,000   | 76,000   | 140,000  |
| Century City Doctors Foundation            | 1,000   | 1,000  | -0-  |
| South Bay Medical Group, Inc.              | <u>-0-</u>  | <u>-0-</u>   | <u>-0-</u>   |
| Total                                      | <u>\$56,567,000<sup>(1)</sup></u>                     | <u>\$29,462,000</u>  | <u>\$27,105,000</u>  |

| <u>RECAP</u>                           | <u>Amount</u>       | <u>Percent</u> |
|--|---------------------|----------------|
| Administrative Costs and Net Profit    | \$29,462,000        | 52             |
| Health Care Services                   | <u>27,105,000</u>   | <u>48</u>      |
| Total Payments by Department of Health | <u>\$56,567,000</u> | <u>100</u>     |

(1)The Department of Health received 50 percent of this amount in federal funds from the Department of Health, Education and Welfare.

(2)These PHP contractors reported net losses.

As one example of the administrative costs in the schedule on page 7, a PHP contractor had employed a physician as plan administrator at an annual salary of \$120,000 plus expenses. The contract with the physician stated:

"Employer recognizes employee is involved in other medically related ventures such as inhalation therapy contracts and other non-medically-related business ventures. These ventures shall at all times remain under the strict control and ownership of employee".

Subsequently, this physician was replaced with another administrator at an annual salary of \$50,000 and was required to spend full time on such administration.

While there is nothing in the law regulating PHP contracts with the Department of Health which establishes a specific statutory limit on administrative expenses, or a specific statutory minimum percentage to be spent on health care services, it is clear that the Department of Health, under its broad authority to determine the terms of the PHP contracts, could have imposed a limit on such expenses or a minimum percentage which must be expended for health care services.

The 15 PHPs reviewed are all registered under the provisions of law regulating health care service plans, which are administered by the Attorney General (Section 12530 et seq. of the Government Code). Most PHPs are registered under these sections. A PHP could instead be registered as a nonprofit hospital service plan under Section 11491 et seq. of the Insurance Code. Both of these sets of provisions limit administrative expenses, the

Government Code prohibiting "excess" expenditures, while the Insurance Code limits expenditures to 25 percent of receipts.

Although the 15 PHPs reviewed are not operating under the provisions of the Insurance Code, nonprofit hospital service plans which do operate under this provision perform similar services as a PHP contractor under contract with the department. Since the Legislature has imposed a 25 percent limit on administrative costs for such nonprofit hospital service plans, it is our judgment that the Department of Health should have extended this 25 percent limit to PHPs with which it has contracted. If the department had imposed such a limit, it should have resulted in 75 percent of the Department of Health payments to PHP contractors being expended for actual health care services.

We conclude that the Department of Health, in paying out \$56.5 million to 15 PHP contractors and in return receiving for the Medi-Cal recipients only \$27.1 million or 48 percent in actual health care services, has administered the PHP program in an ineffective manner.

#### RECOMMENDATION

We recommend that legislation be enacted which will provide that a minimum of 75 percent of all payments made by the Department of Health to PHP contractors be expended for actual health care services.

BENEFITS

If the health care services provided by the 15 selected PHP contractors are adequate, the implementation of this recommendation will result in at least \$12,500,000 annually of reduced Medi-Cal expenditures. If the health care services provided by the 15 PHP contractors are inadequate, the implementation of this recommendation will make at least \$12,500,000 of additional monies available annually for the improvement of health care services.

THE DEPARTMENT OF HEALTH HAS NOT PROPERLY DISCHARGED ITS STATUTORY AUTHORITY AND RESPONSIBILITY TO INSTITUTE AND REQUIRE UNIFORM ACCOUNTING PROCEDURES, COMPLETE FINANCIAL REPORTING AND ROUTINE AUDITING OF PHP CONTRACTORS AND THEIR AFFILIATED SUBCONTRACTORS.

Section 14161 of the Welfare and Institutions Code, enacted in 1971, established the requirement that carriers and providers of Medi-Cal benefits use uniform accounting and cost reporting systems as shall be developed by the Department of Health. This requirement was replaced by Section 14310 of the Welfare and Institutions Code, which became operative on July 1, 1973 and provides only that PHP contractors shall furnish the director of the Department of Health such timely information and reports as he may find necessary.

The Department of Health has not established uniform accounting requirements for PHP contractors nor has the department required these contractors or their affiliated subcontractors to furnish adequate information on a timely basis. Further, the Department of Health, while having the authority to provide for the audit of PHP contractors and their affiliated subcontractors, has not generally exercised such authority.

We were forced to obtain basic financial reporting data directly from the PHP contractors and their affiliated subcontractors because such data is not available at the Department of Health. Some of the financial statements were interim statements which were not prepared on a consistent basis, nor did they provide for disclosure of all financial transactions. Without

this basic data, the Department of Health is not in a position to make independent decisions based upon factual and current data.

In our judgment, the establishment of uniform accounting procedures, complete financial reporting and routine auditing could be more effectively handled by the Department of Finance.

RECOMMENDATION

We recommend that legislation be enacted which will transfer the authority and responsibility for establishing uniform accounting procedures, complete financial reporting and the routine auditing of PHP contractors and their affiliated subcontractors from the Department of Health to the Department of Finance.



OTHER PERTINENT INFORMATION

The Department of Health has contracted for the operation of PHPs primarily with nonprofit corporations. All of the 15 PHPs we reviewed except two were organized as nonprofit corporations. One of these two, Americare, was originally organized as a profit-making corporation but at the department's insistence has since reorganized into a nonprofit corporation. The other PHP contractor, South Bay Family Medical Group, Incorporated, is still organized as a profit-making corporation but has not enrolled any prepaid recipients.

The officers or directors of eight of the PHPs we reviewed had formed profit-making partnerships, associations and corporations which supply various services to the nonprofit PHP contractors.

Through these affiliated profit-making subcontractors, the officers and directors of the nonprofit PHP contractors are able to obtain profits from what is ostensibly a nonprofit operation. Also, the complex relationship created by the use of these interlocking firms makes it more difficult to determine how much of the Department of Health's payments to the PHP contractors actually is expended for health care services for Medi-Cal recipients and how much results in net profits or is expended on executive salaries and other costs of administration.

Services provided by these affiliated subcontractors to the PHP contractors include:

- Enrollment of Medi-Cal recipients in the PHP
- Administration of the PHP
- Providing facilities such as hospitals, clinics and pharmacies
- Actual delivery of health care services.

For example, Consolidated Medical Systems, Ltd., the largest PHP contractor in the state with 51,587 enrollees as of December 31, 1973, neither handles its own administration nor provides medical services directly to enrollees. Instead, it contracts for these services with affiliated subcontractors.

The affiliated subcontractors exhibit great diversity, both in terms of the ways they are organized and in the kinds of services they perform for their affiliated PHP contractors.

All of them, however, do share one characteristic in common -- that of being either completely or predominately funded from the PHP contract between their affiliated PHP contractor and the Department of Health.

Following is a list of the identified affiliated subcontractors doing business with the PHP contractors which we reviewed.

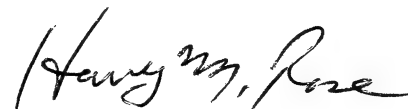
Name of Prepaid Health Plan

Affiliated Organizations

- |                                       |   |
|---------------------------------------|---|
| 1. Consolidated Medical Systems, Ltd. | 1. California Medical Group<br>2. California Medical Group Health Plan, Inc.<br>3. HMO International, subsidiaries of HMOI:<br>a. Pharmaceutix, Inc.<br>b. Coastal Insurance Co.<br>c. Medicalab Management Corporation<br>d. HMO Systems, Inc.   |
| 2. Family Health Program, Inc.        | 1. Medical Centers Building Co.<br>2. Plaza Land Corporation<br>3. Development Associates<br>4. Health Maintenance Life Insurance Company   |
| 3. Central Los Angeles Health Project | 1. Central Medical Group<br>2. Central Medical Pharmacy, Inc.<br>3. A-V Associates, Inc.<br>4. Associated Therapeutics  |
| 4. Marvin Health Services, Inc.       | 1. Marvin Medical Group, Inc.<br>2. Niznick Dental Corporation<br>3. Newman and Goldstone Optometric Corporation<br>4. American Health Maintenance Organization, Inc. and subsidiaries of AHMO, Inc.:<br>a. Western Health Management Services, Inc.<br>b. Marvin X-ray and Laboratories, Inc.<br>c. Monitoring Systems of America, Inc.<br>d. South Central Hospital Corporation<br>e. Greater Los Angeles Pharmaceuticals, Inc. |
| 5. Harbor Health Services             | 1. Totalcare<br>2. Family Medical Group<br>3. Las Campanas Medical Group<br>4. Manhattan Medical Group<br>5. Firestone Medical Group<br>6. Joseph W. Noble Medical Group<br>7. West Alondra Medical Group   |
| 6. Omni-Rx Health Care, Inc.          | 1. Omni-Rx Health System  |
| 7. Century Health Plan, Inc.          | 1. California Health Consultants<br>2. RIK and Associates, Inc.   |
| 8. Western Medical Group              | 1. San Diego Health Planning Association  |

SUMMARY OF COMMENTS OF DIRECTOR OF  
DEPARTMENT OF HEALTH AND HIS STAFF

1. Since the PHP contractors have been in operation for at most two years, and are now operating substantially below their maximum authorized enrollment, it is possible that start-up costs, including initial development and enrollment costs, have caused administrative costs to be higher than normal. Therefore, it is possible that as enrollment of Medi-Cal recipients increases, administrative costs, as a percentage of total costs, will decrease.
2. When the contracts between the PHP contractors and the Department of Health provide the department with more experience and data, the department should be in a better position to establish a maximum percentage of state funds which could be expended for administrative costs. It would take a minimum of four years to acquire such information. However, even when the necessary information is available, it might not be appropriate to establish such a maximum percentage.
3. The top priority of the department's PHPs program is to ensure that medical needs of the Medi-Cal recipients are met, and not to compile financial data. In any event, since the California Hospital Commission is presently developing a uniform accounting system for hospitals, it would be unwise for the department to establish such a system prior to the development of the Commission's system.



Harvey M. Rose  
Auditor General

April 19, 1974

Staff: John H. McConnell  
Phillips Baker  
Ross A. Luna  
Edgar L. Aitken  
William H. Batt

CONSOLIDATED MEDICAL SYSTEMS, LTD. (CMS)

CMS currently has four contracts with the state to provide health care services to Medi-Cal recipients on a prepaid basis. Each contract covers a separate county. This is the largest prepaid health plan contractor in the state. The company is a non-profit corporation but does not provide medical services directly to enrollees. Medical services and administration of the plan are provided primarily through profit motivated affiliated firms. The following data pertains to these contracts:

|  | <u>Los Angeles</u> | <u>Orange</u> | <u>San Bernadino</u> | <u>San Diego</u> |
|--|--------------------|---------------|----------------------|------------------|
| <u>Enrollees</u>   |                    |               |                      |                  |
| Contract maximum   | 100,000            | 10,000        | 5,000                | 11,600           |
| Actual (12/31/73)  | 43,041             | 4,174         | 1,946                | 2,426            |
| <u>Expiration dates</u><br><u>of contracts</u>                                   | 6/30/74            | 11/30/74      | 11/30/74             | 4/30/74          |
| <u>Total prepaid health</u><br><u>plan revenue</u><br><u>received from state</u> |                    |               |                      |                  |
| July 1, 1971 through<br>December 31, 1973  | \$25,568,798       | \$1,128,214   | \$616,895            | \$668,934        |

OFFICERS AND DIRECTORS

Donald K. Kelly, M.D., President and Chairman of Board  
 Robert Daniels, Vice-president and Director  
 Howard Davis, Vice-president and Health Plan Manager  
 Kerr White, M.D., Director  
 Gail Lorenzen, Secretary-Treasurer

AFFILIATED COMPANIES

1. HMO International (HMOI)

HMOI provides management and ancillary services to CMS, California Medical Group (CMG), California Medical Group Health Plan, Inc. (CMGHP) and non-related entities and individuals. HMOI also leases premises and equipment and provides certain insurance coverage to CMG. Stockholders owning approximately 36 percent of the issued and outstanding stock of HMOI own 97 percent of CMG and CMGHP. All of the officers and directors of CMS are also officers and directors of HMOI. In addition, Pharmaceutix, Inc., Coastal Insurance Company, and Medicalab Management Corporation are wholly-owned subsidiaries of HMOI with the same president and other officers and directors in common with HMOI. The officers and directors of HMO International are:

Donald K. Kelly, M.D., President and Chairman of the Board  
Robert Daniels, Vice-president Finance and Director  
Nathan J. Stark, Director  
Kerr L. White, Director  
Elliot R. Wolff, Vice-president, General Counsel and Director  
Robert B. Whittemore, Senior Vice-president  
Howard Davis, Vice-president-Health Plans  
Stuart E. Kaiser, Jr., Vice-president-Financial Systems  
Larry K. MacDonald, Vice-president-Management Information Services  
Alexander Aronoff, Vice-president-Laboratory Division  
Jerry Whitacre, Vice-president-Pharmacy Division  
Mary Ann Wickes, Vice-president-Medical Division  
Gail Lorenzen, Secretary-Treasurer  
Dorothy L. Beam, Assistant Secretary.

2. California Medical Group (CMG)

CMG is a medical partnership and is the primary provider of health care services to Medi-Cal recipients for CMS under the prepaid health contract with the state. The primary partners are Boris B. Levin, M.D., Donald K. Kelly, M.D., and David B. Moll, M.D. These three doctors own approximately 36 percent of the stock of HMO International.

3. California Medical Group Health Plan, Inc. (CMGHP)

CMGHP is a corporation registered under Section 12530 et seq. of the Government Code and provides dental and optometry services. The corporation was formed by the partners of CMG who are the corporate directors and officers.

4. Pharmaceutix, Inc.

This corporation is a wholly-owned subsidiary of HMO International and provides prescription and pharmacy drugs. Officers and directors of the corporation are:

Donald K. Kelly, M.D., Chairman of the Board  
Jerry Whitacre, President  
Robert Daniels, Vice-president and Director  
Gail Lorenzen, Secretary-Treasurer  
Elliot Wolff, Director.

5. Medicalab Management Corporation

This corporation is a wholly-owned subsidiary of HMO International and provides EKG, X-ray and laboratory services. Officers and directors of the corporation are:

Alex Aronoff, President  
Robert Daniels, Vice-president  
Gail Lorenzen, Secretary-Treasurer.

6. Coastal Insurance Company

This insurance company is a wholly-owned subsidiary of HMO International and provides reinsuring hospital risks from the various prepaid health plans. The officers and directors of this firm are:

Donald K. Kelly, M.D., President and Chairman of the Board  
Robert Daniels, Vice-president and Director  
Elliot R. Wolff, Director  
Gail Lorenzen, Secretary-Treasurer.

7. HMO Systems, Inc.

This corporation is a wholly-owned subsidiary of HMO International and provides consultation services to other health maintenance organizations.

ADMINISTRATIVE EXPENSES AND PROFIT

CMS, Ltd. received approximately \$28 million from the state to provide health care services to Medi-Cal recipients enrolled in the plan from July 1, 1971 through December 31, 1973. We reviewed the audited financial statements of CMS, Ltd., HMO International, California Medical Group, and California Medical Group Health Plan, Inc. for the fiscal year ending April 30, 1973. From this review we estimated the administrative cost at 46 percent and profit at 8 percent of prepaid health revenue received from the state. These percentages were applied to the total prepaid health revenue received from the state from July 1, 1971 through December 31, 1973. Based on these percentages, the administrative cost and profit for this whole period amounted to \$14,990,000 and \$12,993,000 was expended for health care services.



FAMILY HEALTH PROGRAM, INC. (FHP)

FHP is a non-profit corporation and currently has two contracts with the state to provide health care services to Medi-Cal recipients. The following data pertains to these contracts:

|  | <u>Los Angeles<br/>County</u> | <u>Orange<br/>County</u> |
|--|-------------------------------|--------------------------|
| <u>Enrollees</u>   |                               |                          |
| Contract maximum   | 20,000                        | 10,000                   |
| Actual (12/31/73)  | 10,746                        | 4,249                    |
| <u>Expiration dates<br/>of contracts</u>                             | 7/31/74                       | 7/31/74                  |
| <u>Total prepaid health<br/>plan revenue<br/>received from state</u> |                               |                          |
| January 1, 1971 through<br>December 31, 1973                         | \$7,892,988                   | \$1,066,253              |

DELIVERY OF SERVICES

FHP maintains their own clinics, employees and doctors on both salary and contractual bases. Hospitals and other providers are contracted on both fee-for-services and capitation bases.

OFFICERS AND DIRECTORS

Robert Gumbiner, M.D., President, Chairman of the Board, and  
Executive Director  
W. Baral, Vice-president and Director  
D. Wyrens, M.D., Secretary and Director  
E. Wisdom, Treasurer and Director  
G. Klaus, Director  
W. Stabler, Director  
B. Holzman, Director

AFFILIATED COMPANIES

FHP does not provide services through affiliated companies. This firm does lease pharmacy locations from three affiliated companies. The lease contracts provide for monthly rental payments, cost of property taxes, insurance and maintenance, and eight to ten percent of the gross sales of each pharmacy.

These affiliated companies are corporations and partnerships controlled by directors or employees of FHP. The chief executive officer of FHP is either the general partner or chief executive officer of each of the affiliates.

FHP incorporated a wholly-owned subsidiary insurance company, Health Maintenance Life Insurance company, in March 1973 and invested \$987,278 in this insurance company.

ADMINISTRATIVE EXPENSES AND PROFITS

FHP received approximately \$8.9 million from the state to provide health care services to Medi-Cal recipients enrolled in the plan from January 1, 1971 through December 31, 1973.

We reviewed the companies audited financial statements for the fiscal year ending July 31, 1973. The administrative expenses of FHP during this period were approximately 35 percent, and excess of revenue over expenditures was 26 percent of revenues received. These percentages were then applied to the total revenue of \$8.9 million received by FHP through December 31, 1973.

As a result of these computations, \$5.4 million was estimated for administrative expenses and excess of revenue over expenditures and \$3.5 million was actually expended to deliver health care services. No attempt was made to determine if the rentals paid for pharmacies owned by affiliated firms were reasonable.

CENTRAL LOS ANGELES HEALTH  
PROJECT (CLAHP)

CLAHP is a medical partnership and has a two-year contract with the state to provide prepaid health care services to Medi-Cal recipients in Los Angeles.

Enrollees

|                   |        |
|-------------------|--------|
| Contract maximum  | 20,000 |
| Actual (12/31/73) | 8,669  |

|  |         |
|--|---------|
| <u>Expiration date</u><br><u>of contract</u> | 8/31/75 |
|--|---------|

|  |             |
|--|-------------|
| <u>Total prepaid health</u><br><u>plan revenue</u><br><u>received from state</u> |             |
| July 1, 1972 through<br>December 31, 1973  | \$4,101,093 |

DELIVERY OF SERVICES

Health care services are provided through Central Medical Group and Central Medical Pharmacy, Inc. The administration of this plan is provided by another affiliated company, A-V Associates, Inc.

OFFICERS AND PARTNERS

Bassett H. L. Brown, M.D., President and Partner  
A. Newton Woodard, M.D., Vice-president and Partner  
Gregory V. Washington, Administrator  
Luther Baldwin, Controller

AFFILIATED COMPANIES

1. A-V Associates, Inc.

This firm provides management, administrative, financial and data processing services. For these services CLAHP pays A-V Associates, Inc. a fixed percentage of the gross capitation revenue received from the state. Officers and directors of this corporation are:

Bassett H. L. Brown, M.D., President  
A. Newton Woodard, M.D., Vice-president  
Gregory V. Washington, Secretary-Treasurer.

2. Central Medical Group (CMG)

CMG provides medical facilities, physician and specialist services, laboratory, X-ray and home health care services. The firm receives 50 percent of the gross capitation revenue received by CLAHP from the state. The firm is a partnership and the officers are:

A. Newton Woodard, M.D., President and Partner  
Bassett H. L. Brown, M.D., Vice-president and Partner.

3. Central Medical Pharmacy, Inc. (CMP)

CMP provides prescription drugs and pharmaceutical services to Medi-Cal recipients through a contract with CLAHP. All services are paid on a fee-for-service basis by CLAHP to CMP. Officers of this corporation are:

A. Newton Woodard, M.D., President  
Bassett H. L. Brown, M.D., Vice-president  
Gregory V. Washington, Secretary-Treasurer.

ADMINISTRATIVE EXPENSES AND PROFIT

CLAHP received \$4.1 million from the state to provide health care services to Medi-Cal recipients enrolled in the plan from July 1, 1972 through December 31, 1973.

We reviewed the unaudited financial statements of CLAHP for the six-month period ending June 30, 1973. We also reviewed the unaudited statement of Central Medical Group and Central Medical Pharmacy, Inc. for the period ended on the same date. As a result of the review, we estimated the percentage of administrative expenses at 33 percent and of profit at 24 percent for the prepaid health plan and its affiliated companies.

The application of these percentages to the total revenue received by CLAHP from the state through December 31, 1973 resulted in an estimate of \$2.3 million which was applied to administrative expenses and profit, and \$1.8 million which was expended for health care services.

MARVIN HEALTH SERVICES, INC. (MHS)

MHS is a non-profit corporation and currently has a contract with the state to provide health care services on a prepaid basis to Medi-Cal recipients in Los Angeles County.

Enrollees

|                   |        |
|-------------------|--------|
| Contract maximum  | 30,000 |
| Actual (12/31/73) | 11,605 |

Expiration date  
of contract

5/31/74

Total prepaid health  
plan revenue  
received from state

|   |             |
|---|-------------|
| July 1, 1972 through<br>December 31, 1973 | \$6,974,290 |
|---|-------------|

DELIVERY OF SERVICES

MHS does not provide medical services directly, but contracts with providers for these services primarily through affiliated companies.

OFFICERS AND DIRECTORS

Marvin Health Services has been plagued with management problems. Dr. Bruce Frome, M.D. was the original president and chief executive officer of the plan. He was replaced by Mr. Peter Wilson in March 1973 at a meeting of the board of directors. Another decision was made in November 1973 to

have the plan administered by another prepaid health plan, South Los Angeles Community Health Plan (SLACHP). Mr. Larry Pipes, the Executive Director of South Los Angeles Community Health Plan, was named the Chief Executive Officer of Marvin Health Services. Mr. Pipes is presently paid by SLACHP who is reimbursed by MHS.

In addition to the appointment of Mr. Pipes, several members of the board resigned and their positions were filled by board members of SLACHP.

The following is a listing of officers and directors of MHS prior to November 19, 1973 and present:

Prior to November 19, 1973

Peter T. Wilson, President, Chief Executive Officer and Chairman  
of the Board  
Eugene Siebens, Executive Vice-president  
Thomas H. Roberg, Vice-president, Administrator  
Asher Thompson, M.D., Director  
Alan Schneir, M.D., Director  
Gerald Niznick, D.D.S., Director  
Merle Goldstone, O.D., Director  
Seymour Farber, Director  
Charles Terry, M.D., Director  
Peter Mangurian, M.D., Director  
Herbert Gross, M.D., Director

Effective November 19, 1973

Larry J. Pipes, President and Chief Executive Officer  
Norman O. Houston, Executive Vice-president  
Charles Sanders, Vice-president  
William Craighead, Director  
Carmen Hays, Director  
Elisabeth Rose, Director  
Asher Thompson, M.D., Director  
Charles Terry, M.D., Director  
Peter Mangurian, M.D., Director



AFFILIATED COMPANIES

1. American Health Maintenance Organization, Inc. (AHMO)

AHMO provides management and ancillary services to Marvin Health Services, Inc. (MHS) and Marvin Medical Group, Inc. (MMG), and leases premises and equipment to both firms. Stockholders owning 61 percent of the issued and outstanding stock of AHMO substantially own MMG. In addition, Marvin X-ray and Laboratories, Inc.; Monitoring Systems of America, Inc.; Greater Los Angeles Pharmaceuticals, Inc.; South Central Hospital Corporation; and Western Health Management Services, Inc. are wholly-owned subsidiaries of AHMO with the same officers and directors in common with AHMO. The officers and directors of AHMO are:

Peter T. Wilson, President, Chief Executive Officer and Director  
Gerald Niznick, D.D.S., Vice-president and Director  
Alan Schneir, M.D., Secretary and Assistant Treasurer  
Asher Thompson, M.D., Treasurer and Assistant Secretary  
Eugene R. Siebens, Vice-president of Finance  
Thomas Roberg, Vice-president of Administration  
Seymour Farber, Director  
Bruce Frome, M.D., Director  
Merle Goldstone, O.D., Director  
Peter Mangurian, M.D., Director  
Charles Terry, M.D., Director.

2. Marvin Medical Group, Inc. (MMG)

MMG is a professional medical corporation and primarily provides physician and other specialist services. MMG also arranges for MHS dentistry and optometric services with Niznick Dental Corporation and Newman and Goldstone, an optometric corporation. The officers and directors of MMG are:

Asher Thompson, M.D., President, Director and Shareholder  
Alan Schneir, M.D., Secretary-Treasurer, Director and Shareholder  
Bruce Frome, M.D., Director and Shareholder  
Peter Mangurian, M.D., Director and Shareholder  
Herbert Gross, M.D., Director and Shareholder  
Charles Terry, M.D., Director and Shareholder.

3. Marvin X-Ray and Laboratory, Inc. (MXL)

This firm is a wholly-owned subsidiary of AHMO and provides X-ray and laboratory services to MMG which, in turn, provides all physician services to MHS. Officers and directors of the firm are:

Peter T. Wilson, President, Executive Officer and Director  
Gerald Niznick, Vice-president and Director  
Asher Thompson, Treasurer and Director  
Alan Schneir, Secretary and Director  
Eugene K. Siebens, Vice-president, Finance.

4. Monitoring Systems of America, Inc. (MSA)

MSA is a wholly-owned subsidiary of AHMO and provides transportation to patients of the prepaid health plans offered by MHS. The officers and directors are the same persons listed in item 3 above.

5. South Central Hospital Corporation (SCHC)

This corporation is a wholly-owned subsidiary of AHMO and provides hospital services to Marvin Medical Group and Marvin Health Services. The officers and directors of SCHC are the same persons listed in item 3 above.

6. Western Health Management Services, Inc. (WHMS)

WHMS is a wholly-owned subsidiary of AHMO and provides management, financial, legal, and public relations services to MMG and AHMO and its subsidiaries. For these services, Western Health Management Services, Inc. receives management fees on a fixed percentage basis. Officers and directors of WHMS are the same persons listed in item 3 above.

Western Health Management Services originally provided the management and administration to MHS. Due to apparent problems, Omni-Rx Health Systems, an affiliated company of another prepaid health plan, was contracted to perform these services for Marvin Health Services. This arrangement did not work out, and presently these functions are being performed by still another prepaid health plan, South Los Angeles Community Health Plan (SLACHP).

7. Greater Los Angeles Pharmaceuticals, Inc. (GLAP)

This pharmaceutical corporation is a wholly-owned subsidiary of AHMO and provides all prescriptions and drugs to Marvin Medical Group and South Central Hospital Corporation. Officers and directors of GLAP are:

Seymour Farber, President and Director  
Merle Goldstone, Vice-president and Director  
Byron Newman, Secretary-Treasurer and Director.

ADMINISTRATIVE EXPENSES AND PROFIT

MHS received prepaid health revenue of almost \$7 million from the state from July 1, 1972 through December 31, 1973. Based upon the company's financial statements for the nine months ending March 31, 1973 and the ratios of the affiliated companies income received from MHS to the total prepaid health income from the state, we estimated the administrative cost at 55 percent and profit at 6 percent of prepaid health revenue from the state. These percentages were applied to the total prepaid health revenue received from the state during the 18-month period ending December 31, 1973. Based on these percentages, the administrative costs and profit for the whole period amounted to \$4.3 million, and \$2.7 million was expended for health care services.

HARBOR HEALTH SERVICES (HHS)

HHS is a California non-profit corporation and currently has a contract with the state to provide health care services on a prepaid basis to Medi-Cal recipients in Los Angeles County.

Enrollees

|                   |        |
|-------------------|--------|
| Contract maximum  | 12,000 |
| Actual (12/31/73) | 6,194  |

Expiration date  
of contract

4/30/74

Total prepaid health  
plan revenue  
received from state

|   |             |
|---|-------------|
| July 1, 1972 through<br>December 31, 1973 | \$2,617,279 |
|---|-------------|

DELIVERY OF SERVICES

Health care services are provided through six medical clinics. Each clinic makes its own arrangements for hospitalization and other medical services. The owners of at least two of the clinics are directors of Harbor Health Services. The administration of the plan is provided by an affiliated firm, Totalcare, a partnership formed by the directors of HHS.

OFFICERS AND DIRECTORS

Edwin Finkelstein, Executive Director  
Muriel Siegal, Director  
Michael Jeskin, Director  
Victor Mastron, M.D., Director  
Larry Ruch, Director  
Joan Runciman, Director  
Ronald Runciman, Director  
Zola Siegal, Director

AFFILIATED COMPANY

Totalcare

This partnership firm provides management, administrative, financial and legal services. For these services, HHS pays Totalcare 15 percent of the gross capitation revenue received from the state. All of the officers and directors of HHS, except Mr. E. Finkelstein, are partners of Totalcare.

ADMINISTRATIVE EXPENSES AND PROFIT

HHS received \$2,617,000 from the state to provide health care services to Medi-Cal recipients enrolled in the plan from July 1, 1972 through December 31, 1973.

We reviewed the plan's financial statements for the six-month period ending December 31, 1973 and requested estimates of overhead rates for the clinics from the plan. On the basis of the review and the company's estimates, we estimated administrative costs at 27 percent and profit at 6 percent of revenue received during this period. These percentages were then applied to the total revenue of \$2,617,000 received from the state by HHS through December 31, 1973.

As a result of these computations, \$864,000 was estimated for administrative costs and profits and an estimated \$1,753,000 was available for health care service to Medi-Cal recipients enrolled in the plan. No allowance for profits of the affiliated clinics was considered in these calculations.

CENTURY CITY DOCTORS FOUNDATION (CCDF)

CCDF is a non-profit foundation and is affiliated with Beverly Hills Doctors Hospital. Two officers and trustees of the foundation are also officers and directors of Beverly Hills Doctors Hospital.

This plan obtained a contract with the state to provide health care service to Medi-Cal recipients. The plan did not actively enroll and the contract was not renewed when it terminated on November 30, 1973.

OMNI-RX HEALTH CARE, INC. (OMNI-RX)

OMNI-RX is a non-profit corporation and currently has a contract with the state to provide health care services on a prepaid basis to Medi-Cal recipients in Los Angeles County.

Enrollees

|                   |        |
|-------------------|--------|
| Contract maximum  | 12,000 |
| Actual (12/31/73) | 4,216  |

Expiration date  
of contract

11/30/74

Total prepaid health  
plan revenue  
received from state

|   |           |
|---|-----------|
| July 1, 1972 through<br>December 31, 1973 | \$897,489 |
|---|-----------|

DELIVERY OF SERVICES

Health care services are provided through subcontracts with medical groups which pay physicians on a salary and contractual basis. Hospitals, pharmacies, dental clinics, and other providers are contracted on both a capitation and fee-for-service basis. The administration of the plan is provided by an affiliated company, OMNI-RX Health Systems.



OFFICERS AND DIRECTORS

Edward R. Dickstein, M.D., President and Chairman  
Henry Lacayo, Vice-president and Director  
Harry Standers, Secretary-Treasurer and Director  
Jerry Benezra, Director  
Harold H. Handley, Director  
Morton Greenberg, Director  
Merv Newell, Director

AFFILIATED COMPANY

OMNI-RX Health Systems

This firm is a public-held corporation and provides, on a cost reimbursement and fee basis, management and administration, medical liaison, operations personnel, business and computer services, and marketing. For these services, OMNI-RX Health Care, Inc. pays the affiliated company 10 percent of the gross capitation revenue received from the state.

Three officers and directors of OMNI-RX Health Care, Inc. are also officers and directors of OMNI-RX Health Systems.

ADMINISTRATIVE EXPENSES AND PROFIT

OMNI-RX received from the state \$897,489 to provide health care services to Medi-Cal recipients enrolled in the plan from September 1, 1972 through December 31, 1973. Based upon the company's financial statements for the fiscal year ending August 31, 1973, we estimated the administrative cost at 41 percent of the total revenue. This percentage was applied to the total prepaid health income received from the state through December 31, 1973, resulting in \$367,970 administrative cost and \$592,343 expended for health care services. The plan experienced a loss of \$62,824.

LOS ANGELES HEALTH FOUNDATION (LAHF)

LAHF is a non-profit foundation and currently has a contract with the state to provide health care services on a prepaid basis to Medi-Cal recipients in Los Angeles County.

Enrollees

|                   |        |
|-------------------|--------|
| Contract maximum  | 20,000 |
| Actual (12/31/73) | 5,231  |

Expiration date  
of contract

10/31/74

Total prepaid health  
plan revenue  
received from state

|  |           |
|--|-----------|
| January 1, 1973 through<br>December 31, 1973 | \$825,492 |
|--|-----------|

DELIVERY OF SERVICES

LAHF contracts with physicians' groups, pharmacists, dentists, and eye specialists, and pays these providers on a fixed fee per month per patient basis. Hospitals and other providers are contracted on a fee-for-services basis. The administration of the health plan is provided by a non-affiliated management and consulting firm, Health Application Systems.

OFFICERS AND DIRECTORS

Ross M. Miller, Jr., M.D., Board Chairman  
John D. Duncan, First Vice-chairman and Director  
William K. Payne, M.D., Second Vice-chairman and Director  
Herbert L. Hemsley, M.D., Treasurer and Director  
Loren Miller, Jr., Secretary and Director  
Walter G. Cathey, Director  
McKinely M. Exum, M.D., Director  
Cliff Jones, Director  
Xenophon Lang, Judge, Director  
James F. Thompson, Director  
Walter Bremond, Director  
Roygene Robinson, Program Administrator

MANAGEMENT AND CONSULTING FIRMS

Health Application Systems provides facility management and administration, data and claims processing, medical information system, and marketing services. For these services LAHF pays 13 percent administrative fees of the prepaid health revenues received. The administrator of LAHF is a salaried employee of Health Application Systems.

Another firm, Paid Prescriptions, provides data and claims processing and pharmaceutical information systems. For such services, LAHF pays Paid Prescriptions a fee of \$1.80 per patient per month.

ADMINISTRATIVE EXPENSES AND PROFIT

LAHF received prepaid health revenue of \$825,500 from the state from January 1, 1973 through December 31, 1973. Based upon the foundation's financial statements for the nine months ending September 30, 1973, we estimated administrative cost at 24 percent and profit at 9 percent of total income. These percentages were applied to the total revenue received for the year 1973. Based on these percentages, administrative cost and profit for the year amounted to \$272,500, and \$553,000 was expended for health care services.

CENTURY HEALTH PLAN, INC. (CHP)

CHP is a non-profit corporation and currently has a contract with the state to provide health care services on a prepaid basis to Medi-Cal recipients in Los Angeles County.

Enrollees

|                   |        |
|-------------------|--------|
| Contract maximum  | 15,000 |
| Actual (12/31/73) | 3,829  |

Expiration date  
of contract

9/30/74

Total prepaid health  
plan revenue  
received from state

|  |           |
|--|-----------|
| October 1, 1972 through<br>December 31, 1973 | \$986,550 |
|--|-----------|

DELIVERY OF SERVICES

Health care services are provided through medical clinics which make their own arrangement for hospitalization and other provided services. Physicians, dentists, pharmacists and other specialists are paid on a fixed rate per month per person basis. Hospitals and other providers are paid on both a fixed monthly rate per patient and a fee-for-service basis. The management of the plans is provided by an affiliated organization, California Health Consultants.

OFFICERS AND DIRECTORS

A. L. Kreger, President and Chief Executive Officer  
R. Kleit, Vice-president and Director  
Roger D. Arrasmith, Vice-president of Internal Operations  
Charles Seard, M.D., Secretary-Treasurer and Medical Director

AFFILIATED COMPANIES

California Health Consultants (CHC)

This firm provides management and consulting services to CHP.  
However, CHC has not billed CHP for such services.

RIK and Associates, Inc.

This firm provides marketing and enrollment services. RIK is paid on a fixed monthly rate per enrollee basis. A director of RIK serves also as an officer and director of the board of CHP.

ADMINISTRATIVE EXPENSES AND PROFIT

CHP received revenue of \$986,500 from the state from October 1, 1972 through December 31, 1973 to provide health care services to Medi-Cal recipients on a prepaid basis. Based upon the company's audited financial statements for the four months ending September 30, 1973, we estimated administrative costs at 25 percent and 1 percent profit for the plan. These percentages were applied to total gross prepaid health income received. Based on these percentages of the \$986,500 received, administrative costs and profits amounted to \$256,500 and \$730,000 was expended for health care services.

WESTLAND HEALTH SERVICES, INC. (WHS)

WHS is a non-profit corporation. Prior to January 1, 1973, the name of the firm was Watts Extended Health Maintenance Plan. The firm currently has a contract with the state to provide health care services on a prepaid basis to Medi-Cal recipients in Los Angeles County.

Enrollees

|                   |        |
|-------------------|--------|
| Contract maximum  | 15,000 |
| Actual (12/31/73) | 2,438  |

Expiration date  
of contract

11/30/74

Total prepaid health  
plan revenue  
received from state

|  |           |
|--|-----------|
| January 1, 1973 through<br>December 31, 1973 | \$859,740 |
|--|-----------|

DELIVERY OF SERVICES

Health care services are provided through contracts with physician groups, dentists, pharmacies, and other specialists. These providers of service are paid on a fixed monthly rate per enrollee. Hospitals and other medical providers are paid on a fee-for-service basis. WHS employs Clear Systems, Inc. to provide data processing services and management information systems.

OFFICERS AND DIRECTORS

J. Alfred Cannon, M.D., President and Chairman  
Herbert B. Avery, M.D., Vice-president and Director  
Mirion P. Bowers, M.D., Treasurer and Director  
George F. Jackson, Jr., M.D., Secretary and Director  
William R. Williams, M.D., Director  
George F. Jackson, Sr., M.D., Director  
Delores Wright, Director  
Ted Boles, Director  
Ida Miller, Director

ADMINISTRATIVE EXPENSES AND PROFIT

WHS received revenue of \$860,000 from the state to provide health care on a prepaid basis to Medi-Cal recipients enrolled in the plan from January 1, 1973 through December 31, 1973. Based upon the company's financial statements for the calendar year 1973, we estimated administrative costs at 93 percent of total capitation income. A net loss of \$499,000 was the result of this high cost of administration for the year 1973. The administrative cost during the year was estimated at \$800,000 and \$559,000 was expended for health care services.

These costs were only possible because WHS also received cash grants from the Federal Department of Health, Education and Welfare and from Los Angeles Regional Family Planning Council, Inc. Grants received from these two sources amounted to \$721,000 during the years 1971, 1972 and 1973.

SOUTH LOS ANGELES COMMUNITY  
HEALTH PLAN (SLACHP)

SLACHP is a non-profit corporation and currently has a contract with the state to provide health care services on a prepaid basis to Medi-Cal recipients in Los Angeles County.

Enrollees

|                   |        |
|-------------------|--------|
| Contract maximum  | 15,000 |
| Actual (12/31/73) | 4,802  |

Expiration date  
of contract

12/31/74

Total prepaid health  
plan revenue  
received from state

|  |             |
|--|-------------|
| January 1, 1973 through<br>December 31, 1973 | \$1,020,815 |
|--|-------------|

DELIVERY OF SERVICES

Health care services are provided through contracts with physician, dental, and pharmaceutical groups and other specialists. These providers are paid on a fixed monthly fee per enrollee. Hospitals and other medical providers are paid on both a fixed fee per month basis and on a fee-for-services basis.

OFFICERS AND DIRECTORS

Norman O. Houston, Board Chairman  
William Craighead, President and Director  
Lincoln Hilburn, Vice-president and Director  
J. Stanley Sanders, Secretary-Treasurer and Director



Larry J. Pipes, Executive Director  
Althea Alexander, Director  
Charles Curtis, M.D., Director  
Jesse Dennis, Director  
Reverend Lee E. Gibbs, Director  
James Hubbard, Jr., Director  
Evelyn Knight, Director  
Reverend Horace N. Mays, Director  
W. Newton Ricketts, M.D., Director  
W. Kevin Hegarty, Director

#### ADMINISTRATIVE EXPENSES AND PROFIT

SLACHP received revenue of \$1,021,000 from the state to provide health care services to Medi-Cal recipients enrolled in the plan from January 1, 1973 through December 31, 1973. Based upon the company's financial statements for the year 1973, we estimated administrative cost at 24 percent and profit at 11 percent. Administrative costs and profits for the year amounted to \$357,000 and \$664,000 was expended for health care services.

#### ADDITIONAL DATA

SLACHP received HMOI developmental grants from the Federal Department of Health, Education and Welfare. During the years 1971 and 1972, the total grants amounted to \$390,855.

SLACHP is currently managing the affairs and administering the provisions of health care services of Marvin Health Services, Inc. Six officers and directors of SLACHP are also officers and directors of Marvin. Expenditures are paid by SLACHP on behalf of Marvin, and Marvin is subsequently billed for the expenditures.

AMERICARE

Americare is a stock corporation and is registered with the Attorney General's Office under the Knox-Mills Health Plan Act.

The corporation currently has a contract with the state to provide health care services on a prepaid basis to Medi-Cal recipients in Los Angeles County.

Enrollees

|                   |        |
|-------------------|--------|
| Contract maximum  | 10,000 |
| Actual (12/31/73) | 2,609  |

Expiration date  
of contract

11/30/74

Total prepaid health  
plan revenue  
received from state

|  |           |
|--|-----------|
| January 1, 1973 through<br>December 31, 1973 | \$720,222 |
|--|-----------|

DELIVERY OF SERVICES

Health care services are provided through the Medical Clinic of El Monte, a medical corporation, with which Americare currently has a sub-contract. Health care services are also provided by physicians, dental and pharmaceutical groups and other specialists who are paid on a contractual basis. Hospitals and other medical providers are paid on both a fixed monthly amount per enrollee and a fee-for-service basis.

OFFICERS AND DIRECTORS

Robert Power, Chairman of the Board and Stockholder  
William Power, Director and Stockholder  
Randy Power, Stockholder  
Susan Power, Stockholder  
Robert Power Trust, Stockholder  
Robert Walker, President and Director  
Terry McGann, Vice-president and Director  
Larry Robinow, Vice-president and Director  
Jo Turner, Secretary-Treasurer  
Richard Ray, Controller

ADMINISTRATIVE EXPENSES AND PROFIT

Americare received \$720,000 from the state to provide health care services on a prepaid basis to enrolled Medi-Cal recipients from January 1, 1973 through December 31, 1973. Based upon the company's financial statements for the ten months ending September 30, 1973, we estimated the administrative costs at 50 percent of total capitation income. The high cost of administration of the plan resulted in a net loss of \$316,000 for the year 1973. Based on percentages applied to the total income for the year 1973, the administrative cost was estimated at \$360,000 and \$677,000 was expended for health care services.

ADDITIONAL DATA

Americare ceased operating as a for-profit corporation on January 31, 1974. The corporation is now registered with the Attorney General's Office as a non-profit corporation under Section 12530 et seq. of the Government Code.

WATTS MULTIPURPOSE HEALTH  
SERVICE CORPORATION (WATTS)

WATTS is a non-profit corporation and currently has a contract with the state to provide health care services on a prepaid basis to Medi-Cal recipients in Los Angeles County.

Enrollees

|                   |        |
|-------------------|--------|
| Contract maximum  | 16,000 |
| Actual (12/31/73) | 3,081  |

|  |         |
|--|---------|
| <u>Expiration date</u><br><u>of contract</u> | 2/28/75 |
|--|---------|

Total prepaid health  
plan revenue  
received from state

|  |           |
|--|-----------|
| May 1, 1973 through<br>December 31, 1973 | \$405,279 |
|--|-----------|

DELIVERY OF SERVICES

WATTS maintains its own medical and dental clinics and pharmacy, and employs doctors, dentists and pharmacists on both a salary and contractual basis. Hospitals and other providers of services are contracted on both a fee-for-service and a fixed monthly amount per enrollee basis.

OFFICERS AND DIRECTORS

Leslie Morgan, President and Chairman  
Jannie Ross, First Vice-chairman and Director  
Welton L. Irving, Second Vice-chairman and Director  
Florence A. Clark, Treasurer and Director  
Maxine Craig, Recording Secretary and Director

Freita Shaw Johnson, Corresponding Secretary and Director  
Jose Angulo, Director  
Walter J. Fuller, Director  
Edna F. Guillary, Director  
Arthur B. Hall, Director  
Delena T. McCloster, Director  
Joycelyn McFrazier, Director  
Birdell C. Moore, Director  
Clark R. Pittman, Director  
Frank Riley, Director  
Jose Roque, Director  
John L. Sauer, Jr. Director  
Gilbert A. Fernandez, Director  
Ernestine K. Thomas, Director  
David Washington, Director  
Robert White, Director  
Benjamin Wyatt, Director

ADMINISTRATIVE EXPENSES AND PROFIT

WATTS received \$405,000 from the state to provide health care services to Medi-Cal recipients enrolled in the plan from May 1, 1973 through December 31, 1973. Based upon the company's financial statements for the five months ending September 30, 1973, we estimated the administrative costs at 65 percent of total prepaid health income. The high cost of administration of the plan resulted in a net loss of \$163,800 for this period. Based on the percentage applied to the total prepaid health revenue, the administrative cost amounted to \$263,000; \$466,000 was expended for health care services, and a net loss of \$324,000 resulted.

ADDITIONAL DATA

WATTS receives grants from the Office of Economic Opportunity. The total OEO grants received in 1972 and during the first half of 1973 amounted to \$6.7 and \$3.5 million, respectively.

SOUTH BAY FAMILY MEDICAL GROUP,  
INC. (SOUTH BAY)

SOUTH BAY is a medical corporation and is registered with the Attorney General's Office under the Knox-Mills Health Plan Act.

Prior to September 1, 1973, the name of the prepaid health plan was Ferrill J. Volpicelli, M.D., a Professional Corporation.

Ferrill J. Volpicelli, M.D., entered into a contract in June 1973 with the state to provide health care services on a prepaid basis to Medi-Cal recipients in Los Angeles County. However, SOUTH BAY has not enrolled prepaid patients. The contract will expire on June 30, 1974.

WESTERN MEDICAL GROUP, (WMG)

WMG is a stock corporation and is registered with the Attorney General's Office under the Knox-Mills Health Plan Act.

WMG currently has a contract with the state to provide health care services on a prepaid basis to Medi-Cal recipients in Los Angeles County.

Enrollees

|                   |        |
|-------------------|--------|
| Contract maximum  | 25,000 |
| Actual (12/31/73) | 2,850  |

Expiration date  
of contract

6/30/74

Total prepaid health  
plan revenue  
received from state

July 1, 1973 through  
December 31, 1973

\$216,047

DELIVERY OF SERVICES

WMG maintains its own medical and dental clinics and pharmacy, and employs doctors, dentists and pharmacists on both a salary and contractual basis. Hospitals and other medical providers are paid both on a fee-for-service and a fixed monthly amount per enrollee basis. The administration and management of the plan is provided by San Diego Health Planning Association.

OFFICERS AND DIRECTORS

Warren Terry, M.D., Board Chairman, President and Stockholder  
Edgar Guinn, M.D., Vice-president, Director and Stockholder  
Sam Williams, M.D., Treasurer, Director and Stockholder  
Melvin Williams, M.D., Secretary, Director and Stockholder  
Harold Burt, M.D., Director and Stockholder  
Leon Kelley, M.D., Director and Stockholder  
Joseph Joyner, M.D., Director and Stockholder  
Richard Butcher, M.D., Stockholder  
Francis Greene, M.D., Stockholder  
Merritt Matthews, M.D., Stockholder  
Nolan Johnson, M.D., Stockholder

AFFILIATED ORGANIZATION

San Diego Health Planning Association

This firm provides management and consulting services to WMG. For these services, WMG pays management fees to the affiliated association. Three directors of the association are officers, directors, and stockholders of WMG.

ADMINISTRATIVE EXPENSES AND PROFIT

WMG received \$216,000 from the state to provide prepaid health care services to Medi-Cal recipients enrolled in the plan from July 1, 1973 through December 31, 1973. Based upon the company's financial statements as of March 31, 1973, we estimated the administrative cost at 33 percent and profit at 2 percent of total revenue. These percentages were applied to the total gross revenues received from July 1, 1973 through December 31, 1973. The result is that the administrative cost and profit for the period amounted to \$76,000 and \$140,000 was expended for health care services.